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NEWCO FINANCIAL CORPORATION

Annual Report 1976



Newco Financial and Operating Highlights

	1976	1975	% Increase
New Life Insurance and Annuities Issued	166,629	82,560	101.8
Life Insurance and Annuities in Force	437,363	300,395	45.6
Total Life Company Assets	25,144	20,322	23.7
Benefits Paid to Policy Owners and Beneficiaries	2,599	2,407	7.9
Shareholder's Equity.....	11,716	11,047	6.0
Net Income for the year	664	394	69.5
Earnings Per Share	3.29	1.92	71.4

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President's Report

This report summarizes the activities of your company and the results it achieved during the 1976 fiscal year.

It is especially pleasing once again to report another period of aggressive growth by your company, with all indicators substantially on the plus side.

These results would have been an achievement of considerable merit in any year. But in a year of uncertain economic climate, still beset by controls and still operating in markets noticeably lacking in buoyancy and optimism, these results are a very confident indicator of the innate strength and dynamism of your company and its people.

Our principal subsidiary, **The North West Life Assurance Company of Canada**, once again demonstrated its capacity for sustained growth.

Its penetration of the United States market was substantially increased, and the company is now represented in nine states with a combined population of some 35,000,000 people: Washington, California, Oregon, Utah, Louisiana, Arizona, Idaho, Montana and Hawaii.

In Canada, a Vice-President, Mar-

keting of very senior stature and experience was appointed to head the company's sales program in Ontario and Quebec. We can anticipate considerable activity in these areas.

The outcome of this year of growth was a dramatic increase in New Ordinary Life Insurance Issued, from \$82,560,000 in 1975 to \$166,629,000 in 1976 for an increase of 101.8%. We can now confidently predict that this figure should reach \$225,000,000 by year-end 1977.

Total Business in Force rose from \$300,395,000 to \$437,363,000 for a growth of 45.6%.

Premium Income was also up by 38.1% from \$5,049,000 in fiscal 1975 to \$6,972,000 in the year under review.

Comparable growth was reflected in Investment Income, from \$1,504,000 to \$1,953,000 for an increase of 29.9%.

This pattern of growth, to my mind, indicates a fully mature company — one that has shown itself capable of sustaining a consistently high level of performance year after year.

NW Investments Ltd., our wholly-owned mutual fund subsidiary, was

able to weather a year of unpredictable and sluggish market activity laudably well. All three funds registered gains.

The net asset value of the NW Equity Fund (including dividends) increased 19.9% during calendar year 1976. This was better than the unadjusted Dow Jones Industrial Index at 17.9% and far better than the Toronto Stock Exchange Index at 3.9%.

The NW Growth Fund performed mid-way between these two indices with an increase in net asset value of 11.1%.

Both funds are invested primarily in U.S. equities.

The NW Canadian Fund, a portfolio of Canadian equities, easily outperformed the TSE Index with a gain in net asset value of 7.3% in a year of negligible market activity.

Although these results do not match the more vigorous growth of the previous year, the fact that all three funds registered gains in a difficult and often depressing year is a tribute to their sound management.

We look forward to better times. In the United States, for instance, a new President has already drafted meas-

ures to prime the economic pump, attack unemployment and stimulate housing. This should react favourably on our U.S. equities, on our own industries and, hence, on our own stock markets. The declining rate of inflation in Canada, too, gives promise of a slackening of economic controls. This should give the nation a new confidence and the economy a new impetus. Our investment portfolios are well structured to take advantage of these anticipated developments.

NWF Realty Services Ltd., our real estate division, generated increased profits in the fiscal year although its overall volume of business was down.

The housing market generally, stifled by a combination of high prices and high mortgage rates, showed little activity. However, greater emphasis was placed on the investment of life insurance funds in interim financing and construction mortgages, and we look to this area of business as one of potentially significant growth.

All indications point to a reduction in mortgage rates in the year ahead — some experts are predicting single-

digit rates — and increased availability of housing in a lower price range. Both factors should provide the encouragement needed by the home buyers and sellers who are a prime source of business for NWF Realty Services. I am optimistic for this division's prospects for 1977 and beyond.

It was with regret that we accepted the resignation during the year of one of our Directors who was appointed to the Supreme Court of British Columbia. We extend our best wishes to The Honorable Mr. Justice George L. Murray.

I know that the optimism I feel for your company's future is shared by all staff members and agents. Without that optimism, and their energy and dedication, we could never have achieved the outstanding results represented by this report. For myself, and on your behalf, I thank them all.



PETER G. ROPCHAN
President.

Auditors' Report

To the Shareholders of
Newco Financial Corporation.

We have examined the consolidated balance sheet of Newco Financial Corporation as at December 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the deter-

minations certified by the Life Assurance subsidiary's actuary as to the stated liabilities under insurance contracts.

A substantial portion of these consolidated financial statements relate to the Life Assurance subsidiary which are presented in accordance with accounting practices prescribed by insurance regulatory bodies which differ in certain respects, which in some instances may be material from generally accepted accounting principles. The more significant differences are described in Note 1.

In our opinion, these consolidated

financial statements present fairly the financial position of the company as at December 31, 1976, and the results of its operations and the changes in the financial position for the year then ended, in conformity with accounting practices prescribed by regulatory bodies as referenced in the above paragraph applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants.
Vancouver, B.C.,
January 28, 1977.

NEWCO FINANCIAL CORPORATION and Subsidiary Companies**Consolidated Balance Sheet**

as at December 31, 1976

ASSETS

Bonds, at amortized cost.....	
Stocks, at cost.....	
Mortgage loans on real estate — Note 7	
Real estate held for investment, at cost	
Policy loans secured by cash surrender values.....	
Cash and term deposits	
Segregated equity investment fund at market value.....	
Premium and investment income receivable	
Shares held in managed mutual funds, at cost	
Office premises and computer installation, at cost less accumulated depreciation and amortization of \$289,000 (1975 — \$250,000).....	
Investment in life insurance portfolio, fund management contracts and related agency forces — Note 2.....	

1976	1975
(Thousands of Dollars)	
\$ 5,947	\$ 5,011
512	694
15,870	12,136
246	—
1,038	982
110	350
568	515
847	674
5	10
169	223
8,488	8,490
<hr/>	
\$33,800	\$29,085

LIABILITIES

Policy reserves
Other obligations to policyholders
Segregated equity fund policy liabilities
Reserve for security valuation — Note 1
Accounts payable and accrued liabilities
Due to shareholders on share consolidation — Note 4
Demand bank loan

1976	1975
(Thousands of Dollars)	
\$16,565	\$13,108
3,522	3,032
568	515
588	706
637	500
104	107
100	70
\$22,084	\$18,038

SHAREHOLDERS' EQUITY

Share capital — Note 3:

 Authorized
 419,000 common shares of no par value
 Issued and fully paid
 201,470 common shares

Retained earnings

10,257	10,257
1,459	790
\$33,800	<u>\$29,085</u>

On behalf of the Board:

P. G. Ropchan, Director
A. Libin, Director

Notes to the Consolidated Financial Statements

December 31, 1976

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 1976 include the accounts of the following subsidiaries:

	Percent of Ownership
The North West Life Assurance Company of Canada.....	99%
NW Fund Management Ltd.....	100%
NW Investments Ltd.....	100%
NW Publications Ltd.....	100%
NWF Realty Services Ltd.	100%
R. M. Thomson & Co. Ltd.....	100%

All material inter-company transactions have been eliminated.

ACCOUNTING POLICIES

Substantially all of the consolidated accounts represent the accounts of the Life Assurance subsidiary, which have been prepared on the basis of accounting practices prescribed or permitted by insurance regulatory authorities. Significant regulatory accounting practices which differ in material respects from generally accepted accounting principles include the following:

Revenue and Expenses

Premium revenues are recognized as they become due. Expenses, including the acquisition costs of new business, are charged to operations as incurred rather than being amortized against the related premium income, over the expected policy life. This results in a reduction of the net income reported during periods of business growth.

Investments in Bonds and Stocks

Bonds and stocks are required to be carried at values prescribed by the regulatory insurance authorities which provisions require the establishment of a security valuation reserve against market fluctuations.

Policy Reserves

Statutory life policy and annuity contract reserves represent policy liabilities computed under methods prescribed by government regulations which methods specify the mortality table to be used, the rate of interest to be assumed and the formula to be applied. Statutory interest assumptions are at times lower than actual yields which tends to defer recognition of income.

Corporate Income Taxes

Income taxes are reported on an actual taxes payable basis rather than the tax allocation basis.

NOTE 2 — LIFE INSURANCE PORTFOLIO, FUND MANAGEMENT CONTRACTS AND RELATED AGENCY FORCES

This amount arose principally during 1969 and 1970 on the acquisition of the Life Insurance and Mutual Fund Management subsidiary companies and represents the cost of the acquisitions less the capital and surplus of the subsidiaries at the dates of acquisition.

NOTE 3 — SHARE CAPITAL

Common Shares Reserved

There are 3,772 shares of The North West Life Assurance Company of Canada outstanding which could as a result of an offer outstanding, be exchanged for and result in the issuance of 1,132 shares of Newco Financial Corporation.

Pursuant to a director's resolution dated September 23, 1969, options may be granted for share purchase plans to employees of the company or its subsidiaries. There are 600 options at \$30 per share outstanding and exercisable at December 31, 1976 expiring at varying dates over the next three years.

NOTE 4 — DUE TO SHAREHOLDERS

This amount represents the unpaid balance arising from the share consolidation in 1974.

NOTE 5 — INCOME TAXES

At December 31, 1976 the North West Life Assurance Company of Canada has policy reserves amounting to approximately \$1,800,000 which have not been claimed for tax purposes and which are available to apply against future income to reduce income taxes thereon.

NOTE 6 — REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to directors and senior officers (including the five highest paid employees) was \$183,000 (1975 — \$189,000).

NOTE 7 — MORTGAGE LOANS ON REAL ESTATE

The company has granted an interest bearing loan of \$100,000 to an officer of the company. The loan is fully secured by a second mortgage and has a five year term.

NOTE 8 — ANTI-INFLATION BOARD LEGISLATION

The company is subject to the requirements of the Anti-Inflation Act which restricts the amount of dividends payable to October 13, 1977.

NEWCO FINANCIAL CORPORATION and Subsidiary Companies

Consolidated Statement of Income

for the year ended December 31, 1976

INCOME:

Life premiums and annuity considerations.....	
Investment income	
Mutual fund management and related fees	
Realty and other income	
Total Income	

PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES:

Death benefits	916
Annuity benefits	344
Other assurance contract benefits	1,081
Dividends	258
	<u>2,599</u>

INSURANCE POLICY RESERVE PROVISIONS

EXPENSES:

Sales.....	1,587
Administration.....	1,362
Depreciation and amortization	39
	<u>2,988</u>

Total appropriation and expenses	8,914
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INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM

Income taxes — Notes 1 and 5.....	685
	<u>29</u>
	<u>656</u>

INCOME BEFORE EXTRAORDINARY ITEM

Reduction of income taxes due to application of loss carried-forward	8
	<u>20</u>

NET INCOME FOR THE YEAR.....

EARNINGS PER SHARE:

Income before extraordinary item.....	\$ 3.25
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Net income for the year	\$ 3.29
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1976	1975
(Thousands of Dollars)	

\$ 6,972	\$ 5,049
1,953	1,504
534	744
140	232
<u>9,599</u>	<u>7,529</u>

916	900
344	204
1,081	1,128
258	175
<u>2,599</u>	<u>2,407</u>
<u>3,327</u>	<u>2,132</u>

1,587	1,272
1,362	1,274
39	50
<u>2,988</u>	<u>2,596</u>
<u>8,914</u>	<u>7,135</u>

685	394
<u>29</u>	<u>20</u>

<u>656</u>	<u>374</u>
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8	20
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<u>\$ 664</u>	<u>\$ 394</u>
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<u>\$ 3.25</u>	<u>\$ 1.82</u>
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<u>\$ 3.29</u>	<u>\$ 1.92</u>
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Consolidated Statement of Retained Earnings

for the year ended December 31, 1976

	1976	1975 (Thousands of Dollars)
Balance, beginning of the year.....	\$ 790	\$ 547
Net income for the year.....	<u>664</u>	<u>394</u>
	<u>1,454</u>	<u>941</u>
Dividends paid.....	113	—
Decrease (increase) in the reserve for security valuation — Note 1	<u>118</u>	<u>(151)</u>
Balance, end of the year	<u><u>\$ 1,459</u></u>	<u><u>\$ 790</u></u>

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1976

SOURCE OF CASH:

	1976	1975
	(Thousands of Dollars)	
From operations		
Net income for the year	\$ 664	\$ 394
Items not requiring an outlay of cash		
including increase in policy reserves, deposit liabilities, future dividends and policy claims awaiting proof	3,926	2,530
Total cash from operations.....	4,590	2,924
From sale and repayment of investments		
Bonds and stocks	1,498	632
Mortgages	1,321	1,924
Real Estate.....	38	733
From changes in other accounts	233	152
Total source of cash.....	7,680	6,365
USE OF CASH:		
Cost of investments purchased		
Bonds and stocks	2,247	1,148
Mortgages	5,055	4,540
Real Estate.....	284	578
Dividends.....	113	—
Reduction in share capital.....	—	32
Changes in other accounts	251	—
Total application of cash	7,950	6,298
Increase (decrease) in cash during the year.....	(270)	67
Cash and short-term deposits less bank indebtedness, beginning of the year	280	213
Cash and short-term deposits less bank indebtedness, end of the year	\$ 10	\$ 280

Newco Statistical Review

	1976 (000's)	1975 (000's)	1974 (000's)	1973 (000's)	1972 (000's)
NEW LIFE INSURANCE AND ANNUITIES ISSUED	\$ 166,629	\$ 82,560	\$ 41,000	\$ 33,500	\$ 21,600
LIFE INSURANCE AND ANNUITIES IN FORCE	437,363	300,395	240,000	220,700	218,192
MUTUAL FUND ASSETS UNDER ADMINISTRATION	21,988	23,612	18,500	27,400	38,000
Life premiums and annuity considerations	\$ 6,972	\$ 5,049	\$ 4,158	\$ 4,204	\$ 3,129
Investment income	1,953	1,504	1,244	975	819
Mutual fund management and related fees....	534	744	789	849	815
Realty and other income.....	140	232	239	51	2
Total	9,599	7,529	6,430	6,079	4,765
Payments to Policyholders and Beneficiaries.....	2,599	2,407	2,090	1,608	1,588
Increase in Policyholder reserves	3,327	2,132	1,592	2,068	995
Operating Income	685	394	424	368	412
Income taxes	21			99	48
Net Income	\$ 664	\$ 394	\$ 453	\$ 307	\$ 403
Earnings per share					
—income before extraordinary items.....	\$3.25	\$1.82	\$2.07	\$1.21	\$1.60
—from extraordinary items.....	.04	.10	—	.20	.20
—for the year	\$3.29	\$1.92	\$2.07	\$1.41	\$1.80

Earnings per share figures for 1973 and prior years have been restated in terms of consolidated shares.

Social Programs and life insurance: a report on projected growth

Over the years, taxpayer-funded social services and assistance plans have proliferated. We have seen the introduction of unemployment insurance, unemployment assistance, pension plans, disability assistance plans, workers' compensation, family allowances, widows' pensions, old age security, medical and hospitalization plans . . . the list is almost endless.

The question naturally arises: are social programs with their apparent aim of cradle-to-grave security, a threat to the life insurance industry and the protection it offers?

The answer — perhaps surprisingly — is that social programs have actually helped the growth of life insurance.

Taking Canada as being reasonably typical of the North American market, the total of life insurance owned (both individual and group) has increased every year since 1900. At the beginning of the century it stood at some \$431 million; in 1975 the total was \$219.9 billion. During 1975, Canadians purchased \$34.5 billion of life insurance — more than five times the amount purchased in 1960.

In fact there are more life insurance policy holders in Canada than taxpayers!

Why this trend? We think there are two basic reasons.

Firstly, government-administered social programs offer, at best, meagre benefits. Yet the very number of plans and their universality have created a tremendous awareness of the kind and amount of protection that a person might need in his lifetime — or that his family might need after his death.

Individuals have been forced to ask themselves realistic questions: could I really exist on an amount that small? could my family survive on those benefits? could my children continue to enjoy the education I had planned for them? could we enjoy a rewarding retirement on those dollars?

The answer for the vast majority of people is 'no'.

The reason why social programs are rejected as necessary, but inadequate — and the second reason for the growth of life insurance — is the rapidly rising standard of living being enjoyed virtually throughout North America. Disposable incomes

have grown, leisure time has increased, educational standards have risen, material possessions have multiplied, and expectations have heightened. Individuals are anxious and financially able to protect the new standards they have achieved, for themselves in later life and for their families in the event of death.

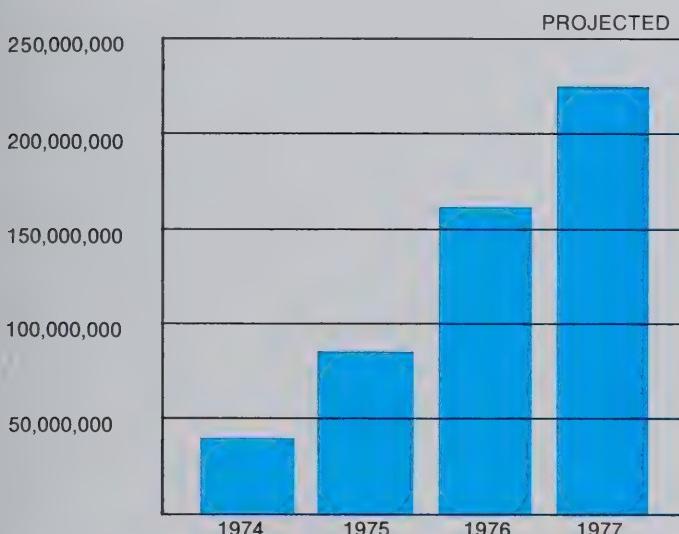
Social programs will no doubt continue to expand, but the protection they afford cannot hope to match the needs and expectations of the individual and his family — Life Insurance can.

Statistics show that, since 1960, insurance ownership in Canada has grown much faster than after-tax income. There is every reason to expect this trend to continue — that people will continue to devote a growing proportion of their income after taxes to the purchase of life insurance protection.

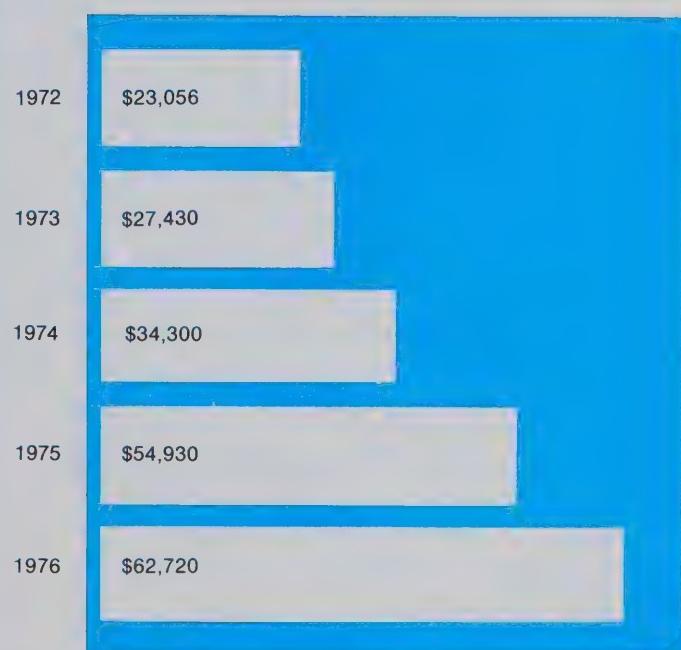
These charts on the anticipated growth of your company are based on past experience and realistic future projections. We believe they will remain valid whatever the socio-economic or socio-political stance of the markets in which we operate.

Life Insurance growth projections

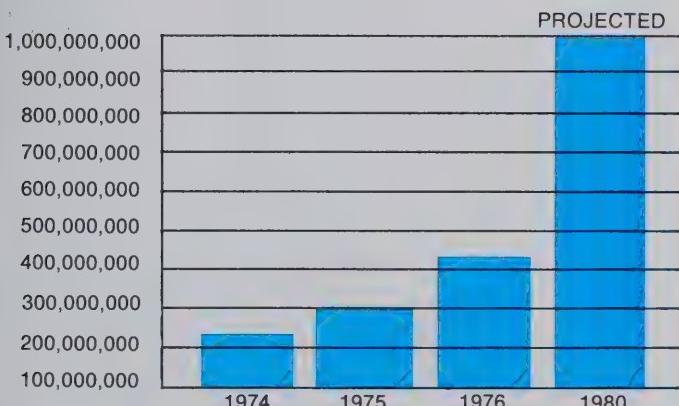
North West Life: New Business 1974-1977



North West Life Average Policy Size



North West Life: Life Insurance Business in Force 1974-1980



As might be appreciated, larger policies tend to be undertaken by families in higher income brackets; and the larger the policy and premiums, the greater the incentive for the insured to maintain the policy in force.

The average size life policy written by Canadian life insurance companies in 1975 (the latest figure available) was \$24,707.

Directors

Ronald S. Bennetts
President, R.S. Bennetts Ltd.
Calgary, Alberta
Einar M. Gunderson
Director, Bank of British Columbia
Vancouver, B.C.
Ernest A. Johnson
Physician & Surgeon
Calgary, Alberta
Ralph J. Leonard
President, Leonard Tire Mart Ltd.
Lethbridge, Alberta
Alvin G. Libin
President, Villacentres Limited
Calgary, Alberta
Gerald T. Corlett
Consultant
Vancouver, B.C.
Peter G. Ropchan
President, Newco Financial Corp.
West Vancouver, B.C.
H.J.C. Terry
President, Potter Distilleries Ltd.
North Vancouver, B.C.

George A. Wilkinson
President, Interprovincial Construction Ltd.
Vancouver, B.C.

Officers

P.G. Ropchan, *President*
A.G. Libin, *Executive Vice-President*
A.W. Putz, *Vice-President, Secretary-Treasurer*
A.L. Thomson, *Vice-President, Chief Actuary*
G.W. Batt, *Vice-President, Finance and Administration*

Head Office

1281 West Georgia Street,
Vancouver, Canada

Registrar and Transfer Agents

The Canada Permanent Trust Company

Bankers

The Toronto-Dominion Bank

Shareholders' Auditors

Touche Ross & Co., Vancouver, B.C.

Shares Listed

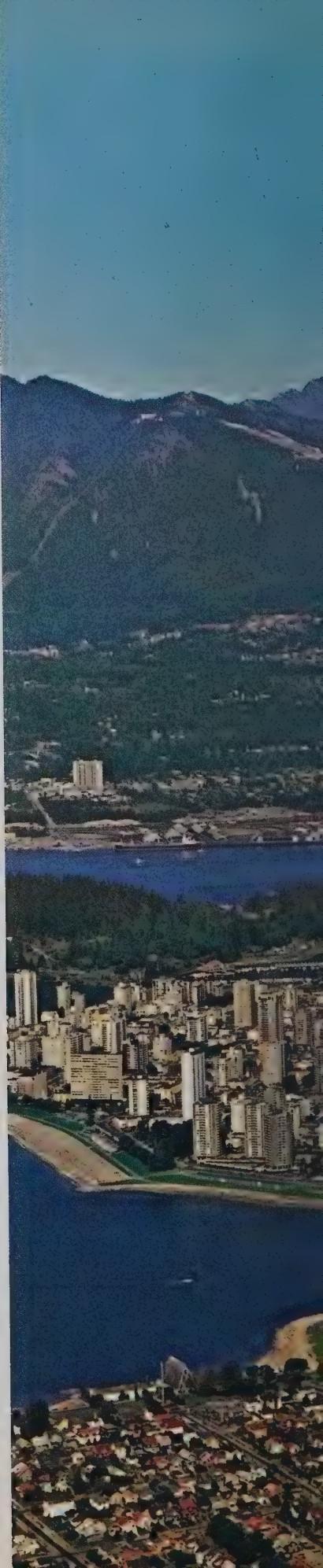
*Vancouver Stock Exchange
Toronto Stock Exchange*

Subsidiary Companies

*The North West Life Assurance Company of Canada
NW Investments Ltd.
Distributors of
NW Canadian Fund Ltd.
NW Equity Fund Ltd.
NW Growth Fund Ltd.
NW Income Fund Ltd.
NW Fund Management Ltd.
NW Publications Ltd.
NWF Realty Services Ltd.*

Now . . .
193 Agents serving
77 communities in
Canada and
9 states in the United States





AR12



SAC

**NEWCO
FINANCIAL
CORPORATION**

[Formerly NW Financial Corporation Ltd.]

FOR THE SIX MONTHS ENDED JUNE 30, 1976

NEWCO FINANCIAL CORPORATION
REPORT TO SHAREHOLDERS

July 26, 1976

Dear Shareholder:

We are pleased to report that the results for the first six months of 1976 show new life insurance business produced of \$66 Million, up 128% compared to the \$29 Million written during the same period in 1975. Revenue from all sources amounted to \$4,730,000, an increase of 13.5% over 1975 revenue of \$4,169,000. Expenses also increased from \$3,981,000 in 1975 to \$4,511,000 this year, due mainly to increased sales costs arising out of the substantial increase in new business.

Net income for the first six months amounted to \$208,000 or \$1.03 per share compared to \$202,000 or \$1.00 per share for the same period last year; a gratifying result considering the additional costs of the increase in new business.

The first half of the dividend declared for 1976 was mailed to shareholders late in June with the second half or \$0.28 scheduled for distribution on December 31st of this year. Shareholders are urged to make sure that all shares they hold are correctly registered in their name as soon as possible.

Respectfully Submitted



P.G. Ropchan,
President



NEWCO FINANCIAL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
for the six months ended June 30, 1976

Income	1976	1975
Life premiums and annuity considerations	\$3,494,000	\$2,890,000
Investment income	904,000	706,000
Mutual fund management and related fees	274,000	496,000
Realty and other income	<u>58,000</u>	<u>77,000</u>
 Total Income	 4,730,000	 4,169,000
 Payments to Policyholders and Beneficiaries:		
Death benefits	532,000	469,000
Annuity benefits	172,000	94,000
Other assurance contract benefits	511,000	600,000
Dividends	<u>93,000</u>	<u>93,000</u>
 Insurance Policy Reserve Provisions	 1,308,000	 1,256,000
 Expenses:		
Sales	786,000	680,000
Administration	648,000	638,000
Depreciation and amortization	<u>24,000</u>	<u>24,000</u>
 Total Appropriation and Expenses	 <u>4,511,000</u>	 <u>3,981,000</u>
 Income Before Income Taxes and Minority Interest	 219,000	 188,000
 Income Taxes	 25,000	 3,000
 , Minority Interest	 <u>2,000</u>	 <u>2,000</u>
 Income before Extraordinary Item	 192,000	 183,000
 Reduction of income taxes due to application of loss carried forward	 16,000	 19,000
 Net Income For the Period	 <u>\$ 208,000</u>	 <u>\$ 202,000</u>
 Earnings per share before extraordinary items	 \$ 0.95	 \$ 0.91
 Earnings per share for the period	 \$ 1.03	 \$ 1.00

NEWCO FINANCIAL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the six months ended June 30, 1976

	1976	1975
SOURCE OF CASH:		
From operations		
Net income for the period	\$ 208,000	\$ 202,000
Items not requiring an outlay of cash including increase in policy reserves, deposit liabilities, future dividends and policy claims awaiting proof	<u>2,176,000</u>	<u>1,361,000</u>
Total Cash from operations	2,384,000	1,563,000
From sale and repayment of investments		
Bonds and stocks	698,000	245,000
Mortgages	615,000	1,021,000
Increase in bank indebtedness	-	476,000
From changes in other accounts	<u>15,000</u>	<u>87,000</u>
Total source of cash	<u>3,712,000</u>	<u>3,392,000</u>
USE OF CASH:		
Cost of investments purchased		
Bonds and stocks	1,082,000	645,000
Mortgages	2,477,000	2,549,000
Real Estate	139,000	318,000
Increase of Policy Loans	24,000	-
Dividends	56,000	-
Changes in other accounts	<u>381,000</u>	<u>357,000</u>
Total application of cash	<u>4,159,000</u>	<u>3,869,000</u>
Decrease in cash	447,000	477,000
Less cash and short-term deposits minus bank indebtedness, beginning of period	<u>280,000</u>	<u>213,000</u>
Bank indebtedness minus cash and short-term deposits, end of period	<u>\$ 167,000</u>	<u>\$ 264,000</u>

